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ABSTRACT

This teaching guide is for instructors who wish to include a discussion of ethical dilemmas in their regular business seminars and workshops. It discusses why it is essential to teach ethics and how to do so. It reviews the format of specially annotated ethics cases that are designed to help teach business ethics and shows how to use them. These steps for guiding an ethics discussion are described: (1) participants provide their own written response to the ethical dilemma; (2) participants are divided into groups, where they present their answers and work to reach group consensus on what to do and why; (3) a member of each group writes the group's answer on a flip chart or chalkboard; (4) for each group response, participants discuss the five ethical analysis questions; (5) participants discuss what policies/procedures/reward systems might be adopted to improve the situation for the future; (6) participants discuss in greater detail the key issues; and (7) participants discuss their responses to the ethical dilemma based on five ethical theories. Step 7 is presented in a section that provides an analytical framework for exploring ethical dilemmas. It discusses the stakeholder concept and five ethical theories: egoism, social group relativism, cultural relativism, utilitarianism, and deontology. The two business ethics discussion cases focus on job layoff and the pricing dilemma. (YLB)

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SBDC PROFESSIONAL ENRICHMENT

Teaching Business Ethics: A Practical Guide and Case Studies

Denis Collins and Laura V. Page

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Teaching Business Ethics: A Practical Guide and Case Studies

Denis Collins, Ph.D.

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This teaching manual was developed to guide instructors who wish to include a discussion of ethical dilemmas in their regular business seminars and workshops. We discuss why it is essential to teach ethics and how to do so. We review the format of specially annotated ethics cases that are designed to help teach business ethics, and we show how to use them. Two sample annotated cases are provided.

Why teach ethics?

Let's get right down to it. Do you know what *you* would do if you owned a business and:

- You must cut back on labor and lay one person off, and you do not have a formal lay-off policy. All your employees are good workers. If you decide to let the person with the least seniority go, this turns out to be a newly hired and talented minority woman, a single mother, who desperately needs your better-than-minimum-wage job.
- You must secure new working capital and an interested investor wants to visit your store at a time when your customer count is typically at its lowest seasonal level. In order to impress the investor, you consider asking friends to come in and pretend to be shopping at the time of the investor's visit.
- Circumstances have resulted in your having a local monopoly on a product that is in very high demand. You know you can set a price extremely high and sell them all. However, if you charge "whatever the market will bear" for the high-demand product, the price will be well above what your most loyal middle-class customers can afford.

These are not unusual cases for anyone who owns a small business. Ethical dilemmas occur every day. Most business owners and managers view finance, pricing and lay-off problems as business problems, not as ethical problems. But they are ethical problems. Any decision that affects the welfare of other people is an ethical issue. Every issue has the potential to become an ethical dilemma where every possible solution has positive and negative consequences.

Our job, and yours — if you accept it — is to help business owner/managers see the ethical nature of their decisions and to give them tools for resolving ethical dilemmas. This teaching guide and our annotated cases are designed to make it easy for instructors to incorporate ethical discussion into almost any seminar, class or workshop on business.

We have heard many objections from our colleagues, students and clients regarding discussing business ethics. Some argue that the discussion of ethics is a high-brow luxury, which is unnecessary, inconclusive and time-consuming. This is how we respond to objections to the discussion of ethics:

- *"Ethics is a "cost" of doing business that I cannot afford, especially during start-up or hard economic times."* Acting ethically can indeed be costly. However, it can also be more costly to be unethical. Ethics is not an "operating cost" to be measured in dollars and cents. Rather, it is a personal values system that is activated or left dormant at each moment of decision-making. There is no escaping ethics. There is an ethic underlying every business transaction that involves human beings. Sometimes it is a good ethic and sometimes it is a bad ethic. For instance, treating employees with respect and dignity is a good business ethic. Treating employees like tools that can be manipulated, and then discarded, is a bad business ethic.
- *"All ethics are relative; there is no right answer."* Some may argue that ethics are relative and that there is no right answer. It is obvious, however, that some answers are better than others, even when we are unsure what is absolutely right or wrong. Most decisions have

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Research on ethical behavior indicates that people generally act in more ethical ways when they are sensitized to the issues.

more than two alternatives — one right and one wrong. Our modern media have over-simplified our mind-set. Life is more complex than good or bad, true or false, guilty or innocent, yes or no, legal or illegal. Most decisions are a shade of gray. Skilled decision-makers look for the better answer among many alternatives. Generating the alternatives and weighing the consequences are skills to be learned.

- *"Business is business; and the business of business is making profits."* Businesses must indeed be profitable to survive. However, being ethical and profitable is not only possible but probable with time and effort. Yes, it will not be easy. Life is not easy.
- *"I am ethical because everything I do is legal."* What is legal is not always ethical, and what is ethical is not always legal. The law is only a guide. It can never translate all our values into what we should and should not do in all circumstances. The law covers only a small part of human activity.
- *"Everyone else does it, including all my competitors, so I am at a competitive disadvantage if I don't do it, too."* Just because everyone else is doing something is not sufficient moral rationale for doing that thing. That may explain it, but it does not justify it. Moral values are not determined simply by majority vote.
- *"It's the government's fault."* Two wrongs do not make a right. Even a government, when wrong, cannot make a right.
- *"I don't have time to worry about ethics."* Time spent carefully considering ethical decisions is wasted only when the decision-maker learns nothing from the effort.
- *"I'm not a philosopher. And they all disagree on what's right and wrong anyway."* Philosophers do not have a monopoly on determining right and wrong behavior. We all judge intentions and behavior every day. Philosophers have simply studied these issues with greater regularity. The purpose of this teaching guide is to enable members of the business community to better philosophize without the formal title of "philosopher."
- *"Who do you think you are to impose your views on me?"* Based upon our conversations with small-business owner/managers and our reading of the business press, it is clear that our society demands more ethical behavior from business today. Business is a social institution. Society is *always* imposing its views on all of us, and we either accept them or reject them. Our society does have strong positive values that it "imposes" on us, such as honesty, fairness, non-discrimination, loyalty, justice. Sometimes these values are in conflict, sometimes they come into conflict, with profit-making, and sometimes they conflict with the personal values of individuals. The business cases we have written are meant to provoke discussion of values, not to give final answers of right or wrong.

The purpose of facilitating ethical discussions is to give people insights into their own ethical reasoning and to encourage them to reflect on their actions. Research on ethical behavior indicates that people generally act in more ethical ways when they are sensitized to the issues and when they discuss the dilemmas with other people. Case study discussions give seminar participants practice in doing exactly that.

Format of the cases

Learning is defined as the assimilation of something new. In order to learn from a discussion of ethics, participants must be challenged to examine their decision-making process. What we have designed is a way for seminar instructors to explore possible solutions to ethical problems by using a series of questions. Answering the questions will draw out positive and negative ethical features of proposed solutions. Participants' thinking will be challenged automaticaly by going through the question/response process.

Ethical dilemmas have no perfect answers, and the cases do not include a "right" answer. Rather, they are structured to enable participants to clarify their thinking. What is needed is clear ethical discussion, not just more ethical discussion. The cases will take you through a process of clear discussion, step by step. Figure I outlines the structure of the business ethics cases.

You should start the discussion of the case by using Part I as a straightforward examination of business management strategies and tactics. A business problem is first presented as *The situation.* This section outlines a practical problem faced by a small-business owner/manager. It is designed to allow you to review business practices that could solve the problem. For example, if a business has an unexpected surplus of labor hours, you can review what efforts to quickly increase sales might solve the problem. Some *Business tactics* are listed in Part I to help you focus on a variety of effective business practices without getting into the ethical dimensions.

This initial discussion should then be followed by a second discussion, begun by reading Part II.

Figure I: Outline of case format

Part I:	The Situation
	Business Tactics
Part II:	The Dilemma
	Key Issues To Think About
	Probable Responses
	But What If...
	Ethical Analysis Questions
	Discussion of Probable Responses
	Policies, Procedures and Reward Systems
	(Optional) Key Issues Analysis
	(Optional) Five Ethical

You can start the discussion by going directly to the case as stated in Part II. However, we recommend you begin with Part I because this emphasizes that most business problems have an ethical dimension.

This second part, *The dilemma,* presents the same case as Part I, but it is restated to expand upon the type of ethical quandaries that are most likely to surface in real-world decision-making. In the real world, business tactics have wide-ranging consequences; stakeholders inside and outside the organization are helped or hurt. Stakeholders are all those who are affected by or can affect the decision outcome. In business, stakeholders typically include owners/stockholders, customers, employees, suppliers, community members, government officials, and the media.

For example, the long-term effect of laying off a newly hired minority worker may be that the firm's credibility as an equal opportunity employer is dampened. This could hurt future recruiting efforts. The lay-off of a single minority with no performance problems may become a local media news issue. Minority members may hesitate to apply to your firm. Also, the company may have trouble bidding on government contract work, which requires a fair representation of minorities in the firm's work force.

The purpose of our case annotations is to focus on the ethical dimensions of decision-making. Any decision that results in negative effects to others becomes an ethical one. Effects may be short-term or long-term, easily predicted or obscurely realized. Harm to some people is often unavoidable in managing a business. The outcomes of most decisions are a mix of positive and negative consequences. When the decision results in more harm than is necessary, the decision is unethical.

To help discussants focus on the ethical nature of decisions, each case includes a list, *Key issues to think about.* These issues highlight some of the complex and conflicting values involved in the case. They pose questions that probe the value system held by each person.

Guiding the ethics discussion

Figure II provides a summary of steps for guiding an ethics discussion. First, have participants read the case themselves and form their own response as to what they would do, and why. Give them some time to think about the *Key issues.* Ask them to write their response down on a piece of paper. Written answers provide participants with a reference point that can be compared after completing the case.

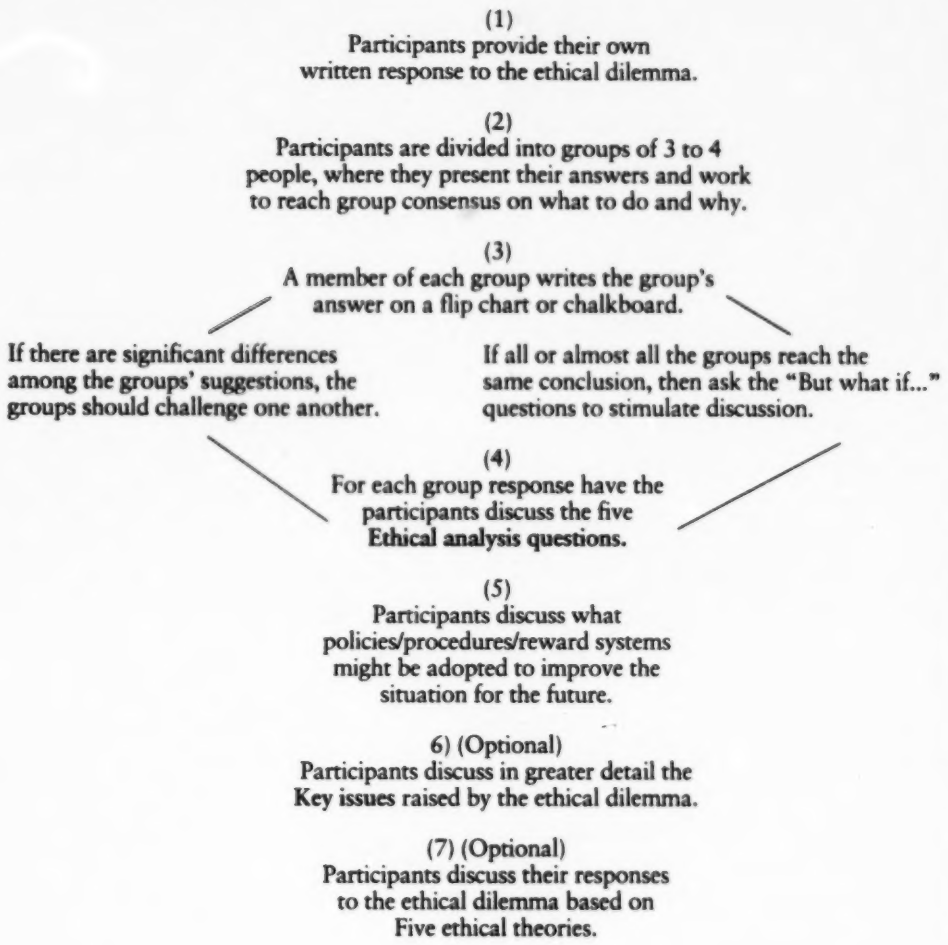
Second, divide participants into groups of three to four people. Large groups tend to hamper honest discussion when the topic is ethical decision-making. Have each member of the group express his/her own personal opinions. After participants have stated what they would do, the group members should discuss similarities and differences. Participants should be encouraged to defend their original solution and to sincerely debate the pros and cons of each proposed solution. Direct the groups to reach consensus, not to decide with a majority vote. Avoid signaling that consensus may be impossible. Trying to reach a consensus will help group members to explore the issues in depth and will enrich the debate.

Third, have one member from each group write the group's solution on a flip chart or chalkboard. If there is a wide variety of responses, have each group defend its decision. Do this by inviting participants to comment on the proposed solutions and to explain why their group did not reach another conclusion. This process enables individuals to further examine their ethical beliefs and question their assumptions. We have tried to anticipate the four or five most probable answers that discussants will give to the ethical case studies. These responses are listed in no particular order of "goodness" in the section *Probable responses.*

What criteria will the discussants use to decide on a course of action that is "as ethical as possible"? Most likely they will have adopted one of five approaches, or some combination thereof, in making their decision. Philosophers have summarized logical ethical systems into five "theories." These theories are: Egoism, Social Group Relativism, Cultural Relativism, Utilitari-

Any decision that results in negative effects to others becomes an ethical one.

Figure II: Steps to ethics discussion


(1)
Participants provide their own written response to the ethical dilemma.
(2)
Participants are divided into groups of 3 to 4 people, where they present their answers and work to reach group consensus on what to do and why.
(3)
A member of each group writes the group's answer on a flip chart or chalkboard.
If there are significant differences among the groups' suggestions, the groups should challenge one another.
If all or almost all the groups reach the same conclusion, then ask the "But what if..." questions to stimulate discussion.
(4)
For each group response have the participants discuss the five Ethical analysis questions.
(5)
Participants discuss what policies/procedures/reward systems might be adopted to improve the situation for the future.
6) (Optional)
Participants discuss in greater detail the Key issues raised by the ethical dilemma.
(7) (Optional)
Participants discuss their responses to the ethical dilemma based on Five ethical theories.

This process will most likely not *result in your finding one answer that all participants agree is the most ethical.*

anism and Deontology. Without knowing it, or consciously adopting it, participants will use one of these ethical theories. We have summarized all five of these approaches in the *Summary of ethical theories* section at the end of this guide.

The labels given to the five approaches are not important to the group discussion. In fact, we recommend against using such terminology with the groups. You may wish to review the five approaches with your participants after the discussion is finished. Two of the approaches — utilitarianism and deontology — represent a "higher" level of ethical theorizing. It may stifle discussion to make such a comment at the outset.

If all the groups suggest only one or two different solutions, you should challenge the groups by using the *But what if...* questions. In order to learn from the cases, the groups need to thoroughly discuss the issues. For example, if all the groups agree that seniority should be used as the lay-off criteria, then you should ask the groups questions such as: "But what if you are very serious about implementing an affirmative action plan?" "But what if the minority woman who you are letting go would not be eligible to receive unemployment benefits?"

Fourth, take each of the responses and answer the five *Ethical analysis questions*. Exploring each question will help participants to think

through their decision-making in a more systematic way. The questions are:

- Will the action clearly help more people than it will harm?
- How well can the people who are harmed recover from the type of harm produced?
- Is this a win-lose solution where the decision-maker wins and the other parties lose?
- What rights/values/principles are being honored?
- What rights/values/principles are being broken?

You should apply all five questions to each of the participants' answers to the ethical dilemma, including responses that we did not include in our list of *Probable responses*. By exposing proposed solutions to these questions, the strengths and weaknesses of the answers will come to light.

This process will most likely *not* result in your finding one answer that all participants agree is the most ethical. Your goal is not to reach an ultimate consensus or agreement. Rather, your goal is to point out the consequences of behavior and promoting clearer and more subtle thinking on the subject of ethics. The discussion is aimed at self-examination, not group accusation. By giving you annotated expositions to probable responses, you should be able to easily challenge participants to think more clearly and examine their own value system.

Participants will have examined their proposed course of action from both a utilitarian and deontological point of view if they answer the five questions. A "good" answer is one that minimizes harm to others and does not violate rights, values and principles that are important to the individual and the broader society. Clearly this is a difficult undertaking. Everyone holds a different set of values and prioritizes them differently. Some people, for example, rank freedom above all other values. Others place loyalty to family at the top. Prioritizing values is a never-ending process for society and individuals. Our principles are a function of various factors, including experience, family background, cultural heritage, economic status and church affiliation. The commonalities in values, however, are much greater than the differences. The "relative" nature of ethics has been grossly exaggerated.

Fifth, to encourage participants to think of what policy or procedural changes are needed — pose a final question: *What policies/procedures/reward systems might the owner/manager adopt to improve the situation for the future?* We have suggested a few ideas in response to this question to help you get ideas started. Our experience is that participants have many constructive and creative suggestions to make in this regard. Discussions here have the real potential for helping to foster change in actual business practices. It is worth spending some time with this last question.

Research on ethical behavior indicates that situational pressures greatly affect our ethical decision-making process. When we are pressured by factors such as lack of time, the need for money, social conformity (peer pressure), and organizational incentives to "win," we are more likely to act unethically and/or shorten our search for a more ethical solution. Policies, procedures and reward systems can increase or decrease situational pressures.

Research on ethical behavior indicates that situational pressures greatly affect our ethical decision-making process.

Sixth, for those who wish to delve more deeply into the ethical issues raised by the case studies, we have included a final section, *Key issues analysis*. Here we provide some brief comments on wider issues, such as the ongoing debate over what level of social responsibility should businesses be held to. You may want to read this section before leading a discussion of the case. Participants may raise some issues covered in this section.

Our annotations are in no way meant to be complete, exhaustive or "correct" in any absolute sense. You should feel free to disagree with us, add to and subtract from our comments, and generally adapt the materials to your own personal methods and style. We have found that discussions of ethical dilemmas flow rather easily if the discussion is based on the structure we have suggested here. We have also found such discussions to be beneficial and downright fun. We hope you find this, too.

Summary of five ethical theories

Note: This is step seven, an optional final segment of your discussion.

This section provides an analytical framework for exploring ethical dilemmas. It discusses the stakeholder concept and five ethical theories. The first three ethical theories (egoism, social group relativism and cultural relativism) are often used by managers. For the most part, social philosophers rate these three theories on the lower realms of the ethics spectrum. The fourth and fifth ethical theories (utilitarianism and deontology) are those that most social philosophers encourage. Each ethical theory examines a situation from a different angle and raises different concerns. These theories, along with stakeholder analysis, can be used to highlight important ethical issues related to each case.

Figure 3: Five ethical theories

Each of the five ethical theories highlight a different concern about human actions. From an ethical perspective, all five concerns, listed below, are essential. None are to be dismissed out of hand, as each raises issues that should be dealt with.

Egoism: How does the action relate to me? If the action conforms with my interests, then it is right. If it conflicts with my interests, then it is wrong.

Social Group Relativism: How does the action relate to the group? If the action conforms with the social group's norms, then it is right. If it is contrary to the social group's norms, then it is wrong.

Cultural Relativism: How does the action relate to the national culture, particularly its laws? If the action conforms with the national culture's norms, then it is right. If it is contrary to the national culture's norms, then it is wrong.

Utilitarianism: How does the action relate to everyone who is affected by it? If it is beneficial to the greatest number, then it is right. If it is detrimental to the greatest number, then it is wrong.

Deontology: How does the action relate to our duty to treat others as ends, not simply as a means to an end? If it treats people as an end, then it is right. If it treats people only as a means to an end, then it is wrong.

Each of the five ethical theories highlight a different concern about human actions.

Below is a summary of stakeholder analysis and the five ethical theories. To illustrate their meaning, we refer to the first of our two cases, which is about a lay-off. It may be useful to read the case before reading further here.

Stakeholder analysis

A stakeholder analyst would ask the question: *Who are all the people affected by the decision?* These people are referred to as "stakeholders," because they have a stake in the decision outcome.

In the lay-off case, the stakeholders are: owner, managers, employees, customers (they could benefit from lower prices), families and other dependents of the employees, and the local community, which benefits from the economic health of its businesses and citizens.

▪ Egoism

An egoist would ask: *"How does the action relate to me?"* If the action conforms with my interests, then it is right. If it conflicts with my interests, then it is wrong.

Each stakeholder may benefit from, or be harmed by, the action. Determining that something is right or wrong based upon how it benefits or harms you is called "Egoism." An action is right if it benefits you and it is wrong if it harms you. Your moral obligations are those that you choose. Egoists tend to reason as follows: "I strongly believe that 'x' is the best decision because that is my preference."

When we say that someone is an egoist, we mean that he or she is looking after his or her own self-interests without considering the interests of others. Egoism is a very common ethical theory. We often apply egoism when deciding questions such as what job to accept and where to live. It is ethical to look after your self-interests. If you don't, then who will? However, if we were to rank ethical theories in terms of social desirability, most social philosophers place egoism at the bottom of the list. It is essential to consider your own interests, but if everyone considers only his or her own self-interests, then many social problems arise.

In the lay-off case, an egoist would consider the harm done to others only if it were likely to affect him or her. In choosing which person to lay off, an egoist would consider which person would be least likely to retaliate. In determining who not to lay off, an egoist would choose individuals most likely to help the firm.

▪ Social group relativism

A social group relativist would ask: *"How does the action relate to my social group?"* If the action conforms with the social group's norms, then it is right. If it is contrary to the social group's norms, then it is wrong.

Associating oneself with the ethical standards of a group is often considered to be a higher stage of moral development than egoism. In this sense, you are not just an isolated individual doing your own thing, you are part of a group. Most likely you are a member of multiple

groups. For instance, as an owner/manager you may be a member of a business association, community group, political party and organized church. We often join groups because we share some common interests with group members. What social groups think about issues matters to you. Determining that something is right or wrong because a social group says so is called "Social Group Relativism."

As a social group relativist, you sacrifice your own sense of right and wrong for those of the social group. An action is right if it conforms with the social group's norms (such as industry and professional standards), and it is wrong if it conflicts with the social group's norms. One's moral obligations are assigned by social group.

In the lay-off case, the social group relativist would determine what most other small business owner/managers are doing. For example, if seniority is the most-often used criteria, then this would likely be his or her policy also.

▪ Cultural relativism

A cultural relativist would ask: *"How does the action relate to my national culture, particularly its laws?"* If the action conforms with the national culture's norms, then it is right. If it is contrary to the national culture's norms, then it is wrong.

Associating oneself with the ethical standards of a national culture is often considered a higher stage of moral development than social group relativism. In this sense, you are not just a member of a group that has its own agenda, you are part of a larger culture that develops norms for relationships among individuals and groups. Laws are often established to codify culturally preferred norms. Determining that something is right or wrong because the culture says so is called "Cultural Relativism."

As a cultural relativist, you sacrifice your own sense of right and wrong for those of the society as a whole. An action is right if it conforms with the national culture and it is wrong if it conflicts with the national culture. One's moral obligations are those that the culture assigns.

Cultural relativists tend to reason as follows: "I strongly believe that 'x' is the best action because that is what this nation stands for." When asked why a certain action was taken, a cultural relativist is likely to respond: "That's how people operate in that nation — everyone does it." In this sense, one recognizes that the norms regarding business interactions in Mexico differ from the norms regarding business interactions in Japan. A cultural relativist will adopt the norms of the culture he or she is working within.

In the lay-off case, a cultural relativist would be concerned with the national and state laws that govern this action. If the firm was unionized, the company would be legally obligated to follow the union contract and collective bargaining procedures. If there is no specific law governing the situation, a social group relativist would determine what "everybody else" in the culture would do.

▪ Utilitarianism

A utilitarian would ask: *"How does the action relate to everyone who is affected by it?"* If the action is beneficial to the greatest number, then it is right. If it is harmful to the greatest number, then it is wrong.

The standards of utilitarianism, as well as deontology, are associated with a higher stage of moral development than cultural relativism. Both are considered to be at a higher stage than cultural relativism because they go beyond national norms by analyzing situations according to universal ethics.

Utilitarianism is concerned with assigning right and wrong by evaluating the consequences of an action for all those who are affected by the action. You consider yourself to be one person among others who are affected by an action. The others may be members of other social groups or cultures. Appealing to one's own self-interests, group norms or cultural norms is not sufficient ethical justification — particularly since these norms may be wrong, conflicting, or irrelevant to the particular circumstance under analysis. Determining that something is right or wrong based upon its consequences to all those who are affected by it is called "Utilitarianism." An action is right if it benefits the greatest number of people and an action is wrong if it is harmful to the greatest number of people. One's moral obligation is to pursue those actions that benefit the greatest number of people.

Under utilitarianism, everyone counts equally. Particular individual attributes such as race, social status or religion do not matter to the utilitarian. Everyone affected by the action is counted equally. Democracy is utilitarian, in the sense that allowing everyone's vote to count equally determines what politician is elected to do the greatest good for the greatest number.

In the lay-off case, a utilitarian would count the stakeholders likely to be harmed and benefited. Another option would be to survey all the stakeholders and ask them whether they would be harmed or helped. A third option is to survey all the stakeholders and ask them what course of action they believe will result in the greatest good and least harm. Regardless of

An ideal moral circumstance occurs when an action can be justified with all five theories.

Moral philosophers spend lifetimes trying to resolve these issues. We must work on them too.

what option is used, the utilitarian would choose the course of action that benefits the most people or harms the least.

- **Deontology**

A deontologist would ask: *"How does the action relate to my duty to treat others as 'ends,' and not simply as a means to an end?"* If the action treats people as an end, then it is right. If it treats people only as a means to an end, then it is wrong. Deontologists follow moral "rules" that universalize the treatment of others as ends, not means. For a deontologist, the appropriate end goal is to be (and to treat others as) human beings who have attributes such as high integrity, honesty, kindness, fairness and reliability.

Deontology is concerned with assigning right and wrong according to the motives that underlie an action. Regardless of the short-term or long-term consequences of your actions, you should treat others the way you want to be treated. A utilitarian may tell the truth because this results in good consequences, a deontologist because telling the truth is right per se. Because you want to be treated in a certain manner, then you have a duty to treat others similarly.

How do people want to be treated? They want to be treated as an end, not only as a means to an end. People are not to be used and manipulated simply for your own benefit, nor for the benefit of the greatest good. Determining that something is right or wrong based upon the duty to treat others as we would want to be treated is called "Deontology." An action is right if it treats others as an end. One's moral obligation is to apply this duty in relationships with others.

In the lay-off case, a deontologist would be concerned with what rights/values/principles are being honored, and what rights/values/principles are being broken. A deontologist would consider principles such as loyalty, family, justice, fairness, equality, and due process, among others. The deontologist would decide what to do based upon what principle he or she valued the most. For example, if one most strongly values family, then the small-business owner/manager would never lay off a family member.

It is important to note that these five approaches to determining what is "right" and "good" are basically rational decision-making methods. Rational approaches to decision-making tend to dominate western culture. Purely emotional, scientific or religious approaches to ethics are also possible. In practice, we often combine multiple methods when we make decisions about the "right" course of action.

Summary

An ideal moral circumstance occurs when an action can be justified with all five theories. Imagine an act that is beneficial to the interests of the individual, one's social group and one's national culture, also results in the greatest good to the greatest number, and treats people as an end, not just a means. This is what Adam Smith believed capitalism would do. By intentionally pursuing your own economic self-interests (egoism), you unintentionally improve the situation of owners, customers and laborers (social group relativism) and the wealth of your nation (cultural relativism). This process thus results in the greatest good for the greatest number (utilitarianism). Smith assumed that people would restrain their pursuit of economic self-interests when it resulted in harm to others because we are by nature empathetic to the situation of others (deontology).

It is important to note that Smith encourages the application of the lowest level of ethical theorizing (egoism) in the business sector on the grounds that one of the highest levels of ethical theorizing exists and is practiced (deontology), and the utilitarian concern of the greatest good for the greatest number will be generated. The lower-level ethical justifications are encouraged as long as they enhance, or are restrained by, the higher-level ethical justifications.

The hardest ethical dilemmas are those where deontology and utilitarianism conflict with one another, or if one theory generates contradictory recommendations. Utilitarians have difficulty resolving dilemmas such as: Should we kill a healthy homeless man in order to use his organs to save the lives of five social activists in need of five different organs (assuming that by doing so it benefits the greatest good of the greatest number)? Calculating positive and negative outcomes can become very complex in practice.

Deontologists have difficulty resolving dilemmas such as: You are a person who values honesty above all other values, and your father comes up to you and asks in an angry voice where your mother is, and says, "I'm going to get her." Your father has a history of physically abusing your mother. The application of moral values clearly becomes very complicated when values come into conflict.

Moral philosophers spend lifetimes trying to resolve these issues. We must work on them too, when faced with the ethical dilemmas that occur in the course of managing a businses.

Business Ethics Discussion Case: The Lay-Off

Part I: The situation

You are the owner of a small printing company. The firm has been in operation for 10 years and employs 40 people, nonunion, both full-time and part-time. Your firm is growing rapidly and, for the most part, relies upon overtime to meet current production demands.

In response to a need for increased productivity, the company purchases a new press. The new technology allows you not only to eliminate overtime, but also to lay off one production employee. The press also has the advantage of being able to better handle environmentally friendly recycled papers and natural-based inks. Because you have a small production shop, all of your workers are generalists; they rotate between a variety of printing tasks. The company has never developed a lay-off policy.

What would you do?

Business tactics

(1) Take significant steps to increase sales with current marketing strategy so that lay-off is unnecessary. Take steps such as new sales force incentives, new distributors, new promotions.

(2) Create a new "environmentally friendly/recycled" market positioning for some or all of your products based on utilization of the new press. Create enough new demand to avoid any lay-off.

(3) Do a skills and aptitude assessment of all the workers. Look for individual(s) whom you could train to fill a new work function needed in the future.

(4) Find ways to cut costs other than labor costs. Keep the "surplus" workers on to perform other tasks, or until natural growth in sales is sufficient enough to create increased production demand.

(5) Lay off employees based on:

- Performance appraisals. Design an appraisal system if it does not exist.
- Seniority.
- Least hours worked.
- Least liked (let go troublemaker, "problem child").

(6) Lay off employees based on criteria that will maximize cost savings:

- Highest hourly wage.
- Highest medical bills.
- Worst safety records.
- Needs most amount of training.

Part II: The dilemma

You are the owner of a small printing company. The firm has been in operation for 10 years and employs 40 people, nonunion, both full-time and part-time. Your firm is growing rapidly and, for the most part, relies upon overtime to meet current production demands. Thirty people work as print production workers.

In response to a need for increased productivity, the company purchases a new press. The new technology allows you not only to eliminate overtime, but also to lay off one production employee. The press also has the advantage of being able to better handle environmentally friendly recycled papers and natural-based inks. Because you have a small production shop, all of your workers are generalists; they rotate between a variety of printing tasks. The company has never developed a lay-off policy.

After doing much strategic planning, you conclude that it will take at least one year to gain enough new customers to avoid the lay-off. You feel this period is too long to carry an unneeded employee. You also conclude that no significantly new job skills will be needed in the near future, so you reject a skills-retraining strategy.

The new technology allows you not only to eliminate overtime, but also to lay off one production employee.

You have had a gainsharing plan in effect for two years that has encouraged your employees to identify cost savings opportunities and to share in them. As a result, you cannot pinpoint any other significant cost savings to avoid the layoff. You have concluded, therefore, that you must lay off one person.

You have never formally conducted performance appraisals. You firmly believe that all your employees are excellent workers.

You have decided not to use the least hours worked as a lay-off criteria. You need the flexibility of using the part-time person for fill-in work. The worker that you consider a troublemaker is actually a good team leader and liked by most of the other employees. Your highest-paid worker is also the most skilled, and you definitely do not want to lose this person. None of your employees really need any significant amount of new training to do their current jobs, so there is no way to maximize savings based on training needs criteria.

You asked the employees for a volunteer, but no one came forward.

You have come up with a list of three possible terminations. However you feel stuck because each requires a difficult choice:

First, if you choose the least senior person, you would eliminate a single mother, who you hired as a result of your affirmative action plan. She is performing well.

Second, if you choose based upon cost savings, you would lay off a full-time employee who has the highest medical bills due to a recently detected heart condition. The long term medical costs are likely to be very large and your insurance rates will go up.

Third, if you choose based upon safety record, you would have to lay off an older worker who is two years from retirement.

Whatever is decided will need to be justified to all company employees. This decision has

Should you consider the circumstances of a person's spouse and other dependents when making this decision?

importance for symbolic reasons and as precedent-setting policy.

What would you do?

Key issues to think about:

- What is the value of loyalty, as expressed by *seniority?*
- When looking for ways to save money, what other goals are important to you?
- In a general layoff, how can you avoid discriminating against women and minorities who are most likely the most recently hired?
- How important is *safety* when considering who to lay off?
- What are the symbolic implications of firing someone who is close to retirement? Should people close to retirement be given special consideration in this decision?
- Should you consider the circumstances of a person's spouse and other dependents when making this decision?
- Should your decision be made an official policy, or should any future lay-offs be done on a case-by-case basis?
- Does the owner have the right to make this decision without employee input?

Probable responses:

(A) Lay off the employee with the least seniority (someone who is a single mother and an affirmative action employee).

(B) Lay off the employee that would save the company the most money (someone who has a heart problem).

(C) Lay off the employee with the worst safety record (someone who is close to retirement).

(D) Put all the names of the production employees in a hat and randomly pick one.

(E) Cut back everyone's hours in production enough to save the equivalent of one person's wages. Don't lay off anyone.

But what if...

If responses are all Option (A), all Option (B), all Option (C), or all Option (D), ask:

But what if the person who is selected for the above reasons:

...is an older man. You knew the man when you hired him because years ago he had saved your father's life — and he was wounded badly in the attempt — during WWII.

...is your brother — and you hired him recently because he had been laid off from another company.

...is an employee who last year developed and implemented a new printing press setup routine that saved the company thousands of dollars — saved the company hundreds of thousands of dollars — saved the company millions of dollars.

...is an employee who the company has loaned money to — buy a house — a large amount of money.

If all responses are Option (E), ask:

But what if your very best employee tells you she will definitely quit if her wages are reduced by any amount — and three of your best employees say they will definitely quit?

But what if 10 of your employees come to you and say they will unionize if you cut back their wages — and a majority (21) of the employees say they will unionize?

But what if you had a general wage cut for all employees last year — and you are certain this second cut is going to ruin morale?

Ethical analysis questions:

(1) Will the action clearly help more people than it will harm?

(2) How well can the people who are harmed recover from the type of harm produced?

(3) Is this a win-lose solution where the decision-maker wins and the other parties lose?

(4) What rights/values/principles are being honored?

(5) What rights/values/principles are being broken?

Respond to the 5 questions

Discussion of probable responses

Option A: Lay off the employee with the least seniority (someone who is a single mother and an affirmative action employee).

(1) Will the action clearly help more people than it will harm?

Yes. In the short-term, it helps 19 people who keep their jobs and hurts the one person losing her job plus at least one known dependent, possibly more. However, in the long term it could dampen the firm's creditability as an equal opportunity employer and hurt future recruiting efforts.

(2) How well can the people who are harmed recover from the type of harm produced?

Not very well. Most likely she will have a difficult time finding a new job. It is very difficult for single mothers to conduct job interviews and the short tenure with your firm looks bad on her resume. She may also face discrimination in her job search. It might be particularly difficult for her to find a job paying the same or better wages than your company.

(3) Is this a win-lose solution where the decision-maker wins and the other parties lose?

Yes, in the short-term the owner benefits

because he/she saves money. In the long-term this demonstrates to employees and potential job applicants that the owner is not committed to the affirmative action plan. The person being laid off clearly loses, as the chances of her getting a better job are remote.

(4) What rights/values/principles are being honored?

- Loyalty. Those who have worked the most years are more valued by the company.
- Property rights. The owner asserts his/her right to make a discretionary decision.
- Respect for age, assuming that the most senior workers are the oldest.
- Consistent administration. Seniority is a simple rule to follow.
- Follow social norms. Many other firms use this criteria also.

(5) What rights/values/principles are being broken?

- Family. Single mothers are not given any special consideration.
- Charity. The decision may put a newborn child at risk. Also, the decision appears to hurt an individual who will have great difficulty in managing the burden.
- Justice. The employee did nothing that directly caused her termination.
- Affirmative action. Establishes a bad precedent for the affirmative action plan.
- Social responsibility. Will increase public welfare problems because the costs saved by the company are likely to be transferred to society.
- Integrity. Regarding affirmative action, the owner appears to be a hypocrite.

Option B: Lay off the employee who would save the company the most money (someone who has a heart problem).

(1) Will the action clearly help more people than it will harm?

Yes. In the short-term it helps 19 people who keep their jobs and hurts the one person losing his job and his dependents. However, in the future it may cause some employees not to seek treatment for illnesses.

(2) How well can the people who are harmed recover from the type of harm produced?

Not very well. The terminated employee is likely to have difficulty finding a new job quickly. As a result, interim insurance may be quite difficult to obtain and pay for. Other potential employers might not employ him due to his health problems.

(3) Is this a win-lose solution where the decision-maker wins and the other parties lose?

Yes, in the short-term, the owner benefits because he/she saves money. In the long term this demonstrates to employees and potential job applicants that the owner is not committed to the health of workers. The person being laid off clearly loses, as the chances of obtaining medical insurance and another job may be quite low.

(4) What rights/values/principles are being honored?

- Property rights. The owner asserts his/her right to make a discretionary decision.
- Profit maximization. One should make the decision that financially benefits the company the most.

(5) What rights/values/principles are being broken?

- Charity. The decision is not very charitable toward someone who has a serious illness. The decision appears to hurt an individual who will have great difficulty managing the burden.
- Justice. The employee did nothing that directly caused his termination.

Will the action clearly help more people than it will harm?

Option C: Lay off the employee with the worst safety record (someone who is close to retirement).

(1) Will the action clearly help more people than it will harm?

Yes. In the short term, it helps 19 people who keep their jobs and hurts the one person losing his job and his dependents. However, in the long term it may lessen the commitment of the remaining employees to the company. Turnover may increase.

(2) How well can the people who are harmed recover from the type of harm produced?

Not very well. The terminated employee is likely to have difficulty finding a new job quickly because of his age. In order to meet his monthly bills, he will most likely have to use his retirement savings.

(3) Is this a win-lose solution where the decision-maker wins and the other parties lose?

Yes, in the short-term, the owner benefits because he/she saves money and improves the company's safety record. However, employees may lessen their long-term commitment to the company because the owner doesn't appear to care about their retirement years. Some employees may apply at other firms that treat their retirees better. The person being laid off clearly loses because he is unemployed and must dip into his retirement savings.

(4) What rights/values/principles are being honored?

- Property rights. The owner asserts his/her right to make a discretionary decision.

- Safety, protection of others. The policy rewards employees with good safety records.

(5) What rights/values/principles are being broken?

- Respect for age. The decision shows that the owner does not highly value employees who are near retirement age.
- Charity. The decision is not very charitable because it will probably lower the quality of the person's retirement years.

Is this a win-lose solution where the decision-maker wins and the other parties lose?

Option D: Put all the names of the production employees in a hat and randomly pick one.

(1) Will the action clearly help more people than it will harm?

Yes. In the short-term, it helps 19 people who keep their jobs and hurts the one person who loses his or her job.

(2) How well can the people who are harmed recover from the type of harm produced?

It is impossible to determine this because it would depend upon whose name is pulled out of the hat. Because no screening is done beforehand, there is a possibility that the person who can least recover might be chosen.

(3) Is this a win-lose solution where the decision-maker wins and the other parties lose?

Yes, in the short-term, the owner benefits because he/she saves money. The owner also doesn't have to go through the agony of making a very personal decision resulting in significant harm to one of the employees. The person being laid off clearly loses because he or she is unemployed.

(4) What rights/values/principles are being honored?

- Equality. All the employees are assumed to have an equal right to a job.
- Random selection. By using random selection you are ensuring that the decision making process is nondiscriminatory.
- All work is valued. There are no unimportant tasks.

(5) What rights/values/principles are being broken?

- Charity. The decision is not very charitable toward anyone chosen who has a unique burden.
- Justice. The laid-off employee did nothing that directly caused his or her termination.
- Personal responsibility. The owner is refusing to take any personal responsibility in determining who to lay off.

Option E: Cut back everyone's hours in production enough to save the equivalent of one person's wages. (Note: an estimate of the cost in lost wages to each full-time individual would be $13.20 a week. This is equivalent to each worker losing 1/30 of their weekly pay, estimating a $10-per-hour wage, 40 hours per week.)

(1) Will the action clearly help more people than it will harm?

No, the action hurts all employees. However, the harm is less severe than being laid off.

(2) How well can the people who are harmed recover from the type of harm produced?

The harm is shared by all the production workers and their families and dependents. This solution increases the likelihood that those harmed can recover, because the harm is less. Also, the harm is probably temporary. The business is growing and will likely do better in the future, so that normal work schedules can be restored for all workers.

Another advantage of this solution is that if any one person feels that this is unfair, or that even a small temporary decrease in hours is too much to handle, then this person has time to find another job.

(3) Is this a win-lose solution where the decision-maker wins and the other parties lose?

Yes, the owner benefits because he/she has reduced labor costs and each employee loses a little.

(4) What rights/values/principles are being honored?

- Equality. Each employee bears an equal amount of the burden.
- Right to work. A lay-off is avoided.
- Property rights. The owner asserts his/her right to make a discretionary decision.
- Community. The workplace is seen as a community experience where everyone should share the burden.

(5) What rights/values/principles are being broken?

- Equality. The owner does not share in the burden.
- Justice. Some workers may feel that they merit preferential treatment because they are better workers, or in some way deserve *not* to share in the burden equally.

What policies/procedures/reward systems might the owner/manager adopt to improve the situation for the future?

In order to avoid the likelihood of laying off affirmative action employees when using seniority as a sole criteria for who is let go, official policy could exempt from consideration for lay-off any employee with less than two years of employment. Give this group special privileges. Women and minorities are likely to be in this group.

Make a policy for lay-off that uses clear performance criteria rather than saving the most money. If applied fairly, it will be only by chance that a person with a poor health record would be laid off.

Policy could stipulate that employees who are nearing retirement, and are performing well, are exempted from any lay-offs.

Find a criteria that is both fair and just — possibly a combination of chance and performance appraisal. Put only the employees with below "outstanding" performance in a hat.

Key issues analysis

This case forces the question of what rights/values/principles one honors the most in determining who to "harm" by a lay-off. In order to decide who to lay off, the criteria used is likely to force you to compromise a right/value/principle that you honor.

An individual's choice of a solution will be based upon his or her personal hierarchy of values. For example, one may value loyalty above all other principles, so using the criteria of seniority is the most ethical solution. Others may value family relationships above all other principles, so they would compromise loyalty if the least senior person being laid off was a family member. If one values justice above all else, one would have to decide a criteria for who "deserved" to be laid off (harmed).

Some participants may suggest that this case is not a very difficult dilemma because the government and the company pay for unemployment insurance. This fact does *not* change the case. One still must chose who to harm, even if the harm is mitigated. Many companies give severance pay in recognition of the harm caused by lay-offs.

Owner/managers often assume they must make this type of decision by themselves. A possible way to deal with this problem would be to form an employee committee to provide or suggest a solution.

Once you have decided on a solution and implemented it, most workers will assume this to be company policy. One must be careful in administering this policy in the future. Circumstances that would cause you to *change* the policy should be considered. When would you change the policy?

Business Ethics Discussion Case: The Pricing Dilemma

Part I: The situation

You own a children's clothing store in a working-class neighborhood. Your sales are much lower than expected this year. The economy has been in a continued recession, and the number of second-hand clothing stores has increased in the neighborhood. Two of them carry children's clothes.

You are worried about the survival of your business. Most of your profit is dependent upon Christmas sales, which represent 60 percent of your income. Normally you don't sell children's toys. However, every year in November you have converted a portion of your store space to sell popular toys. You spend thousands of dollars on the toy inventory. It is late August — you are thinking about how to survive into next year and how to put your store on more stable footing.

What would you do?

Business tactics

(1) Raise your prices while simultaneously promoting a stronger image of quality and service.

(2) Cut costs. Do a better job of managing accounts payable, cut back on giving credit to customers, reduce labor costs, manage inventory better, buy smarter, etc.

(3) Develop a new line of merchandise linked to your current product mix to sell during the spring and summer months. Examples could be a line of swim wear and beach toys, kids shoes, or toys and sports equipment for outdoor activities.

(4) Develop a new line of merchandise that is not directly linked with your current product mix but that reaches the same target market: parents with children. Examples could be children's books and records, adult clothes that "match" the kids' clothes, or children's furniture.

(5) Move the location of the store to a neighborhood that is more affluent and not as affected by the recession.

(6) Renegotiate your debt to slow payment schedules and increase available cash.

(7) Develop more effective promotion to increase sales to current customers, create new customers, and draw customers from a wider geographic area.

(8) Develop sales incentives for store clerks.

(9) Move business "inside" a much larger business with synergistic products/customers.

(10) Find an equity business partner with money and talent to generally help out.

Part II: The dilemma

You own a children's clothing store. Most of your profit is dependent upon Christmas sales, representing 60 percent of your income. Normally you do not sell children's toys. For the

An individual's choice of a solution will be based upon his or her personal hierarchy of values.

Is a high price justifiable due to the possibility of your going out of business?

past few years you have been converting a portion of your store space to the selling of popular toys during the holiday season. You spend thousands of dollars on inventory. Your marketing strategy has been to stock known best-sellers and to sell at very low discounted prices.

You have always used the tag line, "The best-toys at the lowest prices," in your media campaign. Toy sales have been a very successful strategy. Sales volume is high and, though the margins are small, the "extra" profit has been considerable. Due to a continued recession, however, you are not too optimistic about the survival of your business. Also, this year your sales are much lower than expected because there has been an increase in second-hand clothing stores in the neighborhood, at least two of which regularly carry children's clothing. Although you considered a number of other strategic options, you decided in September to go ahead again and order toys for the holiday season.

One day in early December, your store manager comes to you and strongly recommends a substantial price increase for the very hard-to-get Galactic Robot, which has been heavily advertised by the manufacturer. The manufacturer appears to be pursuing a strategy of over-advertising and under-producing a product to create a demand that will carry over after the holidays.

Your store manager has visited other stores and reports that they have very low inventory that will run out in a day or two. Demand clearly far exceeds supply. Every child in the community wants a Galactic Robot this year. You and your store manager made the right guess when you purchased your inventory. You are well-stocked with over 100 of these robots.

Your store is located in a working-class neighborhood that lies next to an upper-middle-class area. You have always relied upon the working class as your primary customer. The suggested retail price for the Galactic Robot is $30 and you have been selling them for a discounted $25. Your store manager suggests that you quadruple the retail price from $25 to $100. He is convinced that you would have no problem selling the inventory at that price, if not to the working class customers, than at least to the upper-middle class. Several people have called offering you $150 in cash, off-the-books and no questions asked, if you guarantee them immediate delivery. You have thought about accepting this offer. You have also thought about raising the price higher, to over $200.

What would you do?

Key issues to think about:

- Is it overpricing a product to charge a price that some people are willing and able to pay? Is there such a thing as a "fair" price?
- Are you discriminating against your loyal working-class customers if you suddenly raise prices to a level they cannot afford?
- Is a high price justifiable due to the possibility of your going out of business?
- If you raise your prices, would your advertising campaign become "false" advertising, because you promised "the lowest price" in previous ads?
- Would raising prices break an implied promise to suppliers, because of their "suggested" retail price?
- How important is it to you that by accepting off-the-books payments of $150, you are committing tax evasion?
- Would your decision differ if the product were a critical pharmaceutical drug, rather than a children's toy?
- If you decide on the higher price, would sharing some of the windfall profits with the store manager be important?
- Does it matter to your decision-making that the manufacturer uses a questionable marketing strategy?

Probable responses:

(A) Set the on-shelf price at over $200.

(B) Take the robots off the shelf and accept the $150 off-the-books offers.

(C) Set the on-shelf price at $100.

(D) Set the on-shelf price at $30 (the suggested retail price) and sell them on a first-come, first-serve basis.

(E) Set the on-shelf price at $30 (the suggested retail price) and use a lottery to distribute them.

But what if...

If responses are all Option (A) or Option (C), ask:

But what if...

...A loyal working-class customer, who you know well, complains about the high price ...and mentions the store's "lowest-price" advertising claim ...and threatens to telephone his lawyer ...threatens to telephone the media ...threatens to organize a protest.

...Eleven customers approach you within two days, bitterly complaining about the high price.

...A father of four kids who promised them that Santa would bring the toy pleads with you for a lower price ...the father had been in your store yesterday when the shelf-price had been $25 but realized he had run out of checks, so he

came back the next day.

...The supplier threatens to limit the supply of future toys if you don't lower the price ...threatens to cancel you as a customer ...demands a percentage of the increased sales price.

If responses are all Option (B), ask:

But what if...

...The person offers you $1,000 ...$500 ...$75 ...$50 ...$35.

...You know that the person making the offer is a reporter ...is a policeman ...a local politician ...a teenage boy from a poor family, who you suspect of being involved in selling drugs.

...The person wants to buy ten robots at $150 each and you suspect that they will be resold at an even higher price.

If responses are all Option (D), ask:

But what if...

...Your banker has threatened to terminate your line of credit, due to your slow repayment of loans ...you will not be able to meet this month's payroll unless you have a drastic increase in your short-term cash flow.

...The few other stores that still have the product have increased their prices to $100 ...$200.

...The store manager is angry and disappointed in your decision because he knows the store is in tremendous financial trouble ...and threatens to quit over the issue.

If responses are all Option (E), ask:

But what if...

...A mother is desperate to buy one immediately and begs to know now if she can buy one, otherwise she must ask her out-of-state family members to search for one ...this mother is a very loyal customer ...this mother is buying the robot for her son who is hospitalized with a grave illness.

...At the time of the lottery drawing, you notice that all of the names have addresses from the nearby upper-middle-class neighborhood.

...Your banker has threatened to terminate your line of credit due to your slow repayment of loans ...you will not be able to meet this month's payroll unless you have a drastic increase in your short-term cash flow.

Ethical analysis questions:

(1) Will the action clearly help more people than it will harm?

(2) How well can the people who are harmed recover from the type of harm produced?

(3) Is this a win-lose solution, where the decision-maker wins and the other parties lose?

(4) What rights/values/principles are being honored?

(5) What rights/values/principles are being broken?

Respond to the 5 questions

Discussion of probable responses

Option A: Set the on-shelf price at over $200.

(1) Will the action clearly help more people than it will harm?

No. It will help a few wealthy people and yourself in the short term. It will price the toys beyond the reach of your regular customers and could hurt your reputation with them. One may argue that it will benefit the neighborhood, because the higher profit would help the store stay in business. However, if the community does not support the store, it will fail sooner or later.

By selling at such a high price you may harm the *manufacturer's* reputation.

(2) How well can the people who are harmed recover from the type of harm produced?

The working-class families with children, who really had their hearts set on receiving the robot, will be very disappointed. Recovery is relative to the level of disappointment. Receiving a hard-to-get toy might take on unusual importance for some children — and their parents are denied "access" to the toy because of its extremely high price.

It would be very difficult for the owner to recover his/her good reputation within the primary customer group. Customers don't quickly forget when their trust has been violated.

The reputation of a toy manufacturer could be very important to their ongoing success. Loss of reputation could become a major problem for the supplier if all toy outlets followed this very high price option — a likely outcome if "everybody does it."

(3) Is this a win-lose solution, where the decision-maker wins and the other parties lose?

Yes. It benefits the decision-maker in the short term at the expense of the regular customers. Customers are unlikely to understand the owner's need to generate increased sales dollars through this big price increase. It could become a lose-lose decision over the long term because of the loss of reputation. The limited number of individuals who can pay over $200 for the robot will have "won," but they may not feel good about this kind of winning.

(4) What rights/values/principles are being honored?

- Private property: It is solely the owner's decision to make.

The reputation of a toy manufacturer could be very important to their ongoing success.

- Profit maximization: Owners should sell their products at whatever price the market will bear.
- Distribution through free markets: Distribution of scarce resources should be based upon ability to pay. Those who can afford to pay the most are the ones who ought to get scarce commodities.

(5) What rights/values/principles are being broken?

- Honesty: Such a high price contradicts your "lowest price" advertising claim.
- Loyalty to long-time customers: They are not able to afford the high price.
- Respect for suppliers: Your unwritten "promise" to the manufacturer, to offer goods at or near suggested retail price, is being broken.
- Fairness: Such a very large price increase puts the toy beyond the reach of many customers who could have purchased it a week earlier.

One may argue that the increased revenue will benefit the neighborhood because it will help the store stay in business.

Option B: Take the robots off the shelf and accept the $150 off-the-books offers.

(1) Will the action clearly help more people than it will harm?

No. This option will help the few people who illicitly purchase the toy. In the short term, it may also help you because of the increased cash flow. All the customers who could have purchased the toys if they were left on the shelf are harmed because the toys are now unavailable. You are harmed if you get caught by the IRS or by some customers. These customers are likely to tell other customers that you cannot be trusted. One may argue that the increased revenue will benefit the neighborhood because it will help the store stay in business. However, most likely the store will fold sooner or later if the community does not support it.

The manufacturer may not be harmed if the high price is handled in this manner because it is not "public" and therefore is clearly not condoned by the manufacturer.

(2) How well can the people who are harmed recover from the type of harm produced?

For the working-class families with children who really had their hearts set on receiving the robot, they will be very disappointed. Recovery is relative to the level of disappointment. Receiving a hard-to-get toy might take on unusual importance for some children — and their parents are denied "access."

It would be very difficult for the owner to recover his/her good reputation with the primary customer group. Customers don't quickly forget when their trust has been violated.

(3) Is this a win-lose solution, where the decision-maker wins and the other parties lose?

Yes and no. It is a win-lose result in that it benefits the decision-maker at the expense of the regular customers. For those customers who can easily afford the $150, it is a win-win option as long as no one is caught. If the word gets out and the owner's reputation is damaged, the decision would become lose-lose over the long term.

(4) What rights/values/principles are being honored?

- Private property: It is solely the owner's decision to make.
- The ends justify the means: Your extreme need for additional income and need to preserve your reputation justify your secretive actions.
- Distribution through free markets: Distribution of scarce resources should be based upon ability to pay. Those who can afford to pay the most are the ones who ought to get scarce commodities.

(5) What rights/values/principles are being broken?

- Obedience to laws: The law requires that you pay taxes on products sold.
- Fairness: By taking the toys off the shelf, everyone who could pay a high price does not have equal access. Only those who make a "secret" offer will get the robot.
- Customer loyalty: The established customer base is generally denied "access" to the toy.

Option C: Set the on-shelf price at $100.

(1) Will the action clearly help more people than it will harm?

No. The action harms all of those customers who can no longer afford to purchase the toy because of the higher price. The higher price helps the owner in the short term. However, the long-term effect may be loss of good will within the regular customer base. It will help more affluent people by increasing the chance that they will have greater access to the limited-supply toy.

The manufacturer's reputation may be harmed by this high price.

(2) How well can the people who are harmed recover from the type of harm produced?

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(3) Is this a win-lose solution, where the decision-maker wins and the other parties lose?

Yes. It benefits the decision-maker at the expense of those regular customers who cannot afford this higher price. In the long term, the owner may lose because of the loss of goodwill within the regular customer base.

The manufacturer's reputation may be harmed by this high price.

(4) What rights/values/principles are being honored?

- Private property: It is solely the owner's decision to make.
- Profit maximization: Owners should sell their products at whatever price the market will bear.
- Distribution through free markets: Distribution of scarce resources should be based upon ability to pay. Those who can afford to pay the most are the ones who ought to get scarce commodities.

(5) What rights/values/principles are being broken?

- Honesty: Such a high price contradicts your "lowest price" advertising claim.
- Loyalty to long-time customers: They are not able to afford the high price.
- Respect for suppliers: Your unwritten "promise" to the manufacturer, to offer goods at or near suggested retail price, is being broken.
- Fairness: Such a very large price increase puts the toy beyond the reach of many customers who could have purchased it a week earlier.

Option D: Set the on-shelf price at $30 (the suggested retail price) and sell them on a first-come, first-serve basis.

(1) Will the action clearly help more people than it will harm?

Yes, in the short term. It allows customers, most of whom will likely be regular customers, to purchase a high-demand gift item for their children. Over the long term, if the store goes out of business, the cause of the business failure cannot be attributed to the pricing of one product. Many other business factors are causing the failure.

(2) How well can the people who are harmed recover from the type of harm produced?

It may be very difficult to recover from a business failure, depending upon individual circumstances. However, the owner's reputation in the community remains intact, and he/she may be able to open a different business there with less trouble than if the "windfall profit" strategy had been used.

(3) Is this a win-lose solution, where the decision-maker wins and the other parties lose?

No. The regular customers benefit because the product is available to them at a price they expected and, presumably, most could afford. The manufacturer benefits because the product is being sold at its suggested retail price. However, because supplies are likely to quickly run out, the manufacturer has caused its own potential long-term problem with customer loyalty. The owner might benefit from customer appreciation and by keeping with the store's well-known pricing strategy. However, the owner may be hurt financially if not enough money is made during the holiday season.

(4) What rights/values/principles are being honored?

- Customer loyalty: Most of the toys are likely to go to regular customers.
- Truth in advertising: The price is almost certainly the lowest in town.
- First come, first serve: This is an impartial form of distributing scarce goods.

(5) What rights/values/principles are being broken?

- Profit maximization: Owners should sell their products at whatever price the market will bear.
- Self-preservation: The action does not increase the store's short-term cash flow. The store continues to be at risk of failing.
- Providing steady employment: The lack of increased cash flow may result in employee layoffs.

Option E: Set the on-shelf price at $30 (the suggested retail price) and use a lottery to distribute the robots.

(1) Will the action clearly help more people than it will harm?

Yes. The lottery mechanism may earn goodwill for the business, because the system of distribution may seem more fair. However, the slightly higher price will not aid the profitability of the business. The store owner is trying to deal with the issue of short supply created by the manufacturer. The $30 price is still likely to be the lowest price in town because other stores have no supply. Owner, suppliers and employees are all harmed if the business fails.

(2) How well can the people who are harmed recover from the type of harm produced?

No one is harmed. Over the long term, if the store goes out of business, the cause of the business failure cannot be attributed to the pricing of one product. Many other business

Over the long term, if the store goes out of business, the cause of the business failure cannot be attributed to the pricing of one product.

This case forces one to decide what to do when free-market forces put loyal customers at a disadvantage in obtaining a scarce resource.

factors are causing the failure.

(3) Is this a win-lose solution, where the decision-maker wins and the other parties lose?

No. The owner and the customers both win. The owner especially may win because of goodwill generated. Customers may appreciate the trouble taken to organize the lottery.

(4) What rights/values/principles are being honored?

- Customer loyalty: Most of the toys are likely to go to regular customers.
- Truth in advertising: The price is almost certainly the lowest in town.
- Fairness in distributing a scarce resource: Random selection will be used to determine who receives the scarce resource.

(5) What rights/values/principles are being broken?

- Profit maximization: Owners should sell their products at whatever price the market will bear.
- Self preservation: The action does not increase the store's short-term cash flow. The store continues to be at risk of failing.
- Providing steady employment: The lack of increased cash flow may result in employee layoffs.

What policies/procedures/reward systems might the owner/manager adopt to improve the situation for the future?

When demand far exceeds supply, windfall profits are always an issue. The store could adopt a written policy that it distributes to customers that explains the philosophy of the store in these situations. In order to gain some increased profit without creating customer resentment, the store could institute a "price rise" policy that states it will increase prices on high-demand items by no more than 25 percent (or whatever the owner decides is ethical). The written policy could explain that the price increase will also defray the increased cost of conducting a lottery.

The written policy should invite customer suggestions and input and give a phone number or other mechanism for gathering that input.

Another policy that could help ensure that loyal customers receive scarce items would be to limit lottery participation to those who have purchased more than some threshold amount during the current year. This would require a system of tracking customer purchases.

Key issues analysis:

This case forces one to decide what to do, if anything, when free-market forces put loyal customers at a disadvantage in obtaining a scarce resource.

An individual's choice of a solution will be based upon whether denying some people access to a scarce toy is viewed as a harm. If one decides that there is a level at which a toy can be priced unethically, then the subsequent determination can be just as difficult. How high is too high? The case analysis reveals that raising the price to $200 is no different *in principle* than raising the price to $100, or to whatever price the market can bear. The difference is in the number of people who can afford to purchase the product and in who these people are (loyal working-class customers versus affluent buyers seeking a scarce product). The higher the price, the greater the number of people denied access.

If one decides that dening access to a toy can be a real harm (parents are likely to have a different view of this than people without children), then the analysis of the case does not change *in principle* if the product in question is a critical pharmaceutical drug. What does change is the degree of harm. Some people may use ethical reasoning that allows for harming people "a little" in order to achieve a greater benefit. Other people will reason on the basis of the principle that intentionally harming people at all is wrong per se.

The case highlights the need to consider long-term consequences of actions. Long-term negative outcomes may outweigh the short-term gains when owners are pressured by circumstances to find immediate solutions. In this case, increasing a business's cash flow with a dramatic price increase may help save it in the short term, but the loss of customer loyalty could, in the long term, cause the business to fail. This case suggests that the owner should communicate openly with loyal customers about changes in pricing, in order to retain goodwill. This should include a written policy.

The case also highlights the tendency to justify using a questionable means by the achievement of a good cause. In this case, the good cause is saving the company from bankruptcy, and the questionable means is instituting a huge price increase that is significantly higher than the suggested retail price. It is important to note that there are multiple causes of the business's failure. Focusing on the opportunity presented by one possible solution is short-sighted.

The case brings into account a very remote stakeholder — the manufacturer — and its reputation. The manufacturer never intended the robot to be sold for $100 or more. This reminds us to think broadly when determining who is affected by a business decision. Also, you may not know for a fact that the manufacturer is intentionally underproducing the toy. To determine an ethical course of action, you may need to substantiate your suspicions. Your attitude toward protecting the reputation of the manufacturer will depend upon your view of justice — what the manufacturer "deserves." ■

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